

68th ANNUAL REPORT

2010

**EQUITY CREDIT UNION
INC**

WHAT MAKES CREDIT UNIONS DIFFERENT ?

- 1) **OWNERSHIP** – Anyone can join a credit union. Credit union members are not merely customers. What distinguishes credit unions from other financial institutions is the principle of one member, one vote. As shareholder members of their financial institution, they have the right to a say in the overall direction of the credit union, elect directors to the board, and share in any profits the credit union makes. The democratic structure of credit unions is an attractive alternative to other financial institutions because all people, regardless of income, occupation or education, influence the policies and decisions made on behalf of the entire membership. Membership does have its benefits.

- 2) **SERVICE** – Credit unions pride themselves on providing their members with friendly and responsive service. They are in business to serve the individual needs of their members.

- 3) **CHOICE** – Credit unions offer a complete range of financial products and services – from chequing accounts and credit cards to Interac and Internet banking.

- 4) **COMPETITIVE PRICES** – Interest rates and service charges at credit unions are comparable to, and sometimes better than, those of the banks.

- 5) **COMMITMENT TO THE COMMUNITY** – Credit unions reinvest their deposits and profits in the communities in which they operate. This is in keeping with their co-operative principles.

68th Annual Meeting

Wednesday, April 13, 2011
Ellas Banquet Hall
35 Danforth Road
Toronto, Ontario
6:30 pm

Agenda

Registration of members

President's welcome

Minutes of 67th Annual Meeting

Reports from: Board of Directors, General Manager,

Senior Lending Officer,

Audit Committee and Auditor

Appointment of Auditor

Unfinished Business

Elections of Directors

Report of the Chairman of Elections

Other Business

New Business

Adjournment

Board of Directors

Art Jessop

Chair

2013

Bill Downing

Vice Chair

2011

John Loreto

Corporate Secretary

2012

Andrew Lenardon

2012

Bruce Facini

2013

Frank Hoday

2013

Craig Nichols

2012

Adil Qureshi

2011

Kenn Fraser

2011

Credit Union Staff

Thomas Dimson
CEO/General Manager

Diane North
Administration Manager

Nancy Smith
Manager, Lending Operations

Joanne Key
Mortgage and Loans Officer

Donna Raponi
Member Services Officer

Debbie Saboe
Member Services Officer

Amanda Hamilton
Member Services Officer

Auditor

Redford Lane Bates LLP
Chartered Accountants

REPORT OF THE BOARD OF DIRECTORS

The year of 2010 will be a significant year in the history of our Credit Union. Through our successful relocation to our new site in Ajax comes a wealth of opportunities to sustain and grow our credit union. We thank our members who have visited us and appreciate the positive feedback on the new location. As the global economy improves it has had positive effects on our business. The Credit Union is starting to realize some returns on our required loan to Central One for their investment in Asset Backed Commercial Paper (ABCP). The Credit Union had forecast and budgeted for a loss of \$237,440 mainly due to the costs of relocation to Ajax. However, with the Board's diligence and staff's effective performance, the credit union's expenses have been below budgeted target and the result was a year end loss of \$48,312. We are confident that with the growth of the Credit Union and the economy that we will see a return to a profit status in the future.

With last year's closure of the Korex plant which left a lot of our members unemployed, I am happy to report that with the credit union's support most have weathered the loss and have gained employment elsewhere or, like myself, have taken advantage of government programs to attend college for training in a career. Unfortunately, a few are still facing difficult times but your Credit Union is doing everything possible to assist them.

To further improve our services to the members we have added extra business hours, hired more staff, and installed an ATM machine with on-line transactions with instant balance recording. To our new staff members who are, Joanne Key, Debbie Saboe and Amanda Hamilton; welcome to our family.

I would like to thank the Directors for their hard work; their extra time and immense efforts on behalf of the Credit Union this year in governing of the to make it a viable and successful operation that plays an important part in our financial lives.

I would also like to thank the staff for their large part in the successful relocation of our office and their continuing dedication and commitment to superior service to the members.

Most importantly, I would like to thank all the members for their support and patronage during 2010. We, the Directors and staff will persist in improving services, take advantage of opportunities, and continue to grow the Credit Union to the benefit of our members.

Sincerely,
Art Jessop, Chair
Board of Directors

MESSAGE FROM THE CEO/GENERAL MANAGER

SERVICE, TRUST AND INTEGRITY

Equity is a Credit Union with relationships rooted in traditional values. Values that still hold their worth today and those held by every new member we welcome through our doors. These are the values we want for our families and for our finances. These are the values we know our members expect us to uphold as their financial institution.

At Equity, we have held on to this promise for over 68 years and it is through our commitment to provide our members with dependable service, a secure home for their finances, and a means for opportunity, that we remain grounded and determined in our mission to grow and prosper together.

2010 was a year of transition for the Credit Union. In July we moved to our new location in Ajax, Ontario. It is a vibrant community where the credit union will grow and cultivate its roots for long term growth. The move was extremely challenging however at the end of it all, board and staff were all proud and excited to have a new place to call home.

OUR YEAR END REVIEW

In July the Credit Union moved its office to Ajax, Ontario. As part of our expansion plans for members, the Credit Union increased its hours of operation to include Thursday and Friday evenings as well as Saturdays. To raise awareness, we participated in sponsoring the Ajax Skate Club's annual show. In addition, we sponsored a boy's and girl's hockey team as part of our commitment to the community. We also advertised in the local newspapers and undertook mail drops in the area. We became members of the Pickering/Ajax Board of Trade as well as the Whitby Chamber of Commerce. In September, we held a grand opening celebration wherein the mayor of Ajax and federal government MP for the area attended our festivities.

Our new location plans included the installation of an ATM, a first for Equity Credit Union. Members and non-members have access to the machine. In addition, our members that use our Membercard are now live on Interac. This gives them up to the moment balances in their accounts. For our members who enjoy banking on the go, Equity is part of The Exchange Network of ATMs. With

over 2,400 locations at participating financial institutions, our members can access their accounts at more locations throughout Canada and USA without incurring additional surcharges.

Also in 2010, we saw continued enhancements to the Credit Unions and Caisses Populaires Act with the Cost of Borrowing and Disclosure Regulation becoming law as of October 1, 2010. This will ensure financing transparency and provide further consumer protection in reporting to our membership.

When I wrote to you in last year's report, the world was facing one of the most dramatic shifts in global economic and financial markets in almost 80 years. The economic headwinds lingered into 2010 and, while conditions have improved, reactions from governments, regulators, competitors and members are still taking shape, and the environment remains far from predictable. Equity Credit Union once again demonstrated strong stewardship and successfully navigated through the challenges of a damaged economy.

We remain confident that your Credit Union will grow and succeed, even as challenges remain: first, because we have an excellent team that is committed to working together to provide our members with expert advice and service; second, because we are continuing to build on a solid foundation of key strengths, including a strong capital base, and excellent risk and expense management skills; and finally, because we have a clear focus on our strategy and where we need to direct our efforts.

FINANCIAL FOCUS

Our assets decreased by approximately \$2.0 million and as a result, the December 31, 2010 balance sheet stood at \$36.6 million. This represented a 5.2% decrease over 2009 assets.

Our deposit base, which reflects total member deposits, had a decrease of approximately \$2.0 million in 2010. We continue to offer competitive interest rates to build our deposit base for future lending demand.

At year end, Equity's mortgage and loan portfolio declined by \$3.8 million in 2010. This was largely attributable to continued negative effects of the economy, wherein there was low demand for mortgage and loans and the "cut-throat" mortgage rates in the marketplace. Within the credit portfolio, personal loans increased by \$270K, however the residential mortgage portfolio decreased by \$4M.

With the slightly improving economic conditions in 2010, our focus within the loan/mortgage portfolio was on writing quality loans, working together with our members to find solutions, while being mindful of protecting the assets of the Credit Union.

Our capital declined slightly in 2010. Regulatory capital ended the year at \$2,813,168 and our capital ratio at year-end was a very strong 7.9%.

We continue to exceed regulatory requirements and industry averages. Our strong financial condition, position us well for continued success in 2011 and beyond.

With historically low interest rates experienced in 2009 which carried forward into 2010, top line revenue declined throughout the year with core loan revenue decreasing by 7%. Investment income increased significantly by 130% in 2010. During these uncertain economic times, the board and management continued to take the view to invest in lower-yielding, but highly-secured investments. We have taken the position that safety of your deposits outweighs the opportunity of higher and potentially riskier yields. At year end our portfolio consisted of cash and term deposits held at Central 1, our trade association partner.

Operating expenses increased in 2010 primarily due to expenses relating to the Ajax move and our new location. Our provision for losses on loans was \$82,552, which was higher than the previous year. At December 31, 2010, the credit union has a total of \$63,820 in general loan loss reserves that has been set aside against future loan contingencies.

As a result of an increase in operating expenses, low interest rates, and higher than norm provision for impaired loans, we reported a net loss for the year of \$48,312. However, this does compare favorably to our 2010 budget where we projected a net loss of \$238K, largely due to the move to Ajax.

OUR EXCITING FUTURE

In the coming year, we are optimistic about our opportunities for growth and development at Equity. Although the Canadian economy is showing signs of improvement, it remains highly fragile. We must remain mindful of the possibility of future global market corrections and ensure that the assets of our Credit Union are protected for the long term.

With this perspective in mind, we will be cautious in our lending but ensure that credit is flowing consistent to the expectations of our members. We are fully cognizant that members may still experience financial difficulties in spite of economic forecasts of recovery. We will continue to work with those in difficulty created by job loss within the family unit. We will continue to advise members on the product fit that best meets their short and long term goals. We will not abandon financial practices in favour of a “quick fix”. Our goal is to ensure that our members are financially stable in the short term and, at the very least, remain that way over the long term.

Equity Credit Union continues to offer “no-fee” banking and “keeps more money in our member’s pockets”. Not many financial institutions offer these positive incentives any longer.

As noted earlier, the most exciting news story that everybody has been made aware of is our move to Ajax to set up roots in this tremendously vibrant community for the long term. We will focus our attention on attracting new members, offering a wealth management program for members, increasing the personal loan and mortgage portfolios and lastly, continuing to grow the deposit portfolio to fund member credit demand. These actions will be achieved through implementation of focused strategic marketing programs and community involvement in the Durham area.

In addition, during the year we plan on introducing commercial banking as another major service to offer. This will encompass day to day business banking as well as various commercial lending products. As a result of the Credit Union moving into the Ajax community this will be very important to attract small business owners and businesses as a whole to be part of Equity Credit Union’s future growth strategy.

The conversion to chip card technology is on its way. This is an advancement we are eager for as it will provide members with enhanced security and peace of mind when accessing their accounts electronically. This product will begin to be offered in early 2011.

In 2009 we introduced an alliance with Monarch Wealth to provide wealth management services to our members. This is a total encompassing program so our members can get a complete range of financial services. We see this as a very popular program in coming years and we are very excited about this new alliance.

The “virtual” part of our business continues to develop and increase in usage. As many of our members can attest, you do not have to live close to the credit union to deal with us. Our members conduct much of their banking over the telephone, through our website for internet banking and credit applications, and at outside facilities such as ATMs using our Member debit card. The Exchange Network of ATMs is an excellent way to deposit and withdrawal money and not get surcharged.

We know that you, our members, require more options, more information and more tools to meet your financial goals. We continually strive to upgrade our personalized services as these activities are critical for our long-term growth. I encourage your active participation in all of the benefits awaiting you at our Credit Union.

Tell your family, friends and co-workers about Equity Credit Union and how they can benefit as members. We are delighted to continue to offer our member referral program. There is no better way to promote our Credit Union, but have positive testimonials from existing members.

ACKNOWLEDGEMENTS

The economy is still on shaky footing, and we can't say that a sustainable recovery has taken hold. There are some positive signs that we are in a recovery. We remain cautiously optimistic: the challenges of the last two years have not yet been totally resolved. We will continue to drive revenue growth while being disciplined in the area of expenses and risk. Nevertheless, there'll no doubt be opportunities to take advantage of our position of strength at our new location to grow market share.

Our strong balance sheet, liquidity, capital position, reputation and people reinforce our ability to react to business opportunities as they arise.

I would like to extend my appreciation to the staff and board of directors who ensure that the focus of our operation remains where it has been for over 68 years and will remain for many years to come – on enhancing our members' personal financial circumstances and ensuring your needs are always utmost.

The opportunity to serve our members is a privilege for me and for our entire team. I along with our employees, would like to thank you, our members for your trust and ongoing involvement through these difficult times in making this a truly innovative, member-directed financial institution, without whom all this activity could not continue not only now, but in the future.

Thomas Dimson
CEO/General Manager

REPORT OF THE LOAN & MORTGAGE DEPARTMENT

During the year 2010, the Credit Union received a total of 2,751 loan applications. Of these, 2,685 new loans totaling \$6,045,915 were granted to members and 66 were denied.

The loan categories were:

Residential Mortgages:	27 for \$2,566,604
Residential MeritLines:	923 for \$1,302,195
Commercial Mortgages:	1 for \$ 149,000
Commercial MeritLines:	0 for \$ 0
Personal Loans:	119 for \$1,202,326
Lines of Credit:	1418 for \$ 974,790

At year end, the total loans outstanding were \$28,176,562 compared to \$31,911,698 at the end of the previous year. This resulted in an overall decrease of \$3,735,136 or 11.7% in the loan / mortgage portfolio for the year.

As at December 31, 2010 there were six (6) personal loans totaling \$38,231 impaired and reserved. There is one (1) mortgage that is considered impaired totaling \$122,544 and \$63,819 has been reserved at this time. Despite the unsettling economy, our net delinquency ratio remained low at 0.32%.

As you all know by now, in July the Credit Union moved to a new location in Ajax. We have adjusted to the new location quite well and I hope you all have had an opportunity to visit. The Credit Union will undertake a number of loan and mortgage initiatives throughout the year to attract new members and grow loans and mortgages in the community. We have chosen a great new location for long term growth and we also look forward to a great year 2011 !!!

“Thank You” to all members who used our credit facilities in 2010. We always appreciate your business and hope you will continue to recommend our services to your family, friends and co-workers.

Nancy Smith
Manager, Lending Operations

AUDIT COMMITTEE

The Audit Committee continues to carry out its duties as stipulated by the Credit Union Act and Regulations of 1994. Some of these duties are:

- review the Credit Union's monthly financial reports and results;
- review the policies, procedures and controls relating to legislative compliance, with particular focus on capital adequacy, risk weighting of assets and liquidity;
- recommend the appointment of the auditor to the Board of Directors;
- review the qualifications, independence and performance of the auditor
- serve as the principle communication link between the external auditors and the Board of Directors, and in particular, review and agree to the auditor's " Terms of Engagement" and " Scope of Audit",
- review the interim audit report and the year end audited financial statements and recommend approval to the Board of Directors
- review the requirements for adherence to the new accounting policies as they relate to the International Financial Reporting Standards that will come into effect commencing January 2011

The Audit Committee met five times during the year. The Committee also met once with the Auditor:

- to review and accept the 2010 year end audited financial statements;

There were no matters of significance to be reported to the members.

The committee received full co-operation and support from management throughout the year.

A recommendation has been made to the Board of Directors for the appointment of the Auditor for the year 2011.

Respectfully submitted by the Audit Committee.

John J. Loreto, Chairman

William Downing
Craig Nichols
Kenn Fraser

HOURS

Monday-Wednesday

9:30 a.m. – 5:00 p.m.

Thursday and Friday

9:30 a.m. – 7:00 p.m.

Saturday

9:30 a.m. – 3:00 p.m.

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